MEMO

DATE: April 3, 2003

TO: Community, Economic, and Human Development Committee

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SUBJECT: **Policy Evaluation of Growth Projections**

Recommended Action: Information only

Background:

Introduction

This memorandum summarizes an initial policy evaluation of the four technical growth projections. The purpose of the evaluation process is to select a preferred technical growth projection to be evaluated along with the two growth visioning scenarios (PILUT Scenarios 1 and 2) in order to formulate the 2004 RTP Preferred Alternative.

The following technical growth projections are being evaluated: 1.) Trend Projection; 2.) Local Input Projection; and 3.) Technically Balanced Growth Projection (TBGP). Each projection is described and evaluated in the following four policy areas: 1.) unemployment rate/labor force supply; 2.) housing affordability/crowding; 3.) job/housing balance; and 4.) income. An additional projection ("Trend/Local Input") which combines the regional and county totals from the Trend Projection, with jurisdictional data consistent with Local Input, is also evaluated.

Technical Growth Projections

Working with the Forecasting Technical Task Force (FTTF) as well as economic and demographic experts, staff and consultants have completed the development of three growth projections that include: the Trend Projection, Local Input Projection, and TBGP. The Trend/Local Input Projection utilizes the Trend Projection totals with the jurisdictional distribution consistent with Local Input. Each of these data sets contains projections of population, households and employment by five-year increments through the year 2030 at a variety of geographical levels.

The Trend Projection is a technical trend analysis that implicitly incorporates historical policies up to the present. It utilizes demographic and economic models to project future growth based on key national and state trends. It assumes the regional baseline transportation infrastructure.

The Local Input Projection is consistent with the input numbers received from local jurisdictions. The input data from local jurisdictions includes general plan information and incorporates the latest local policies and land use availability. It assumes the regional baseline transportation infrastructure and environmental constraints. It results in a redistribution of growth relative to the Trend Projection.

The TBGP utilizes the Local Input Projection as a benchmark. Based on evaluation criteria developed by the FTTF it ensures reasonable relationships between population, households and employment at the regional and county levels. It also assumes the regional baseline transportation infrastructure.

The Trend/Local Input Projection utilizes the regional and county population, household and employment totals from the Trend Projection with the Local Input distribution. It also assumes the regional baseline transportation infrastructure.

Each of these four projections is being subjected to an evaluation process during Phase I. Phase I will result in the selection of a preferred technical growth projection. During Phase II the preferred growth projection will then be evaluated (utilizing the 2004 RTP transportation infrastructure) along with the two growth visioning scenarios in order to formulate the 2004 RTP Preferred Alternative.

Initial Policy Evaluation:

The policy implications of the SCAG technical growth projections have been evaluated in the following four policy areas:

- Unemployment Rate/Labor Force Supply
- Housing Affordability/Crowding
- Job-Housing Balance
- Income

Unemployment Rate/Labor Force Supply

The 3.7% unemployment rate implied by the Local Input Projection has the potential to cause serious labor force shortages. These shortages have implications in regards to immigration policies; domestic migration; and the deferred retirement, longer labor force participation, and increased need for job training of the elderly population.

The long-term equilibrium regional unemployment rate assumption used for the Trend Projection was 4.9% (consistent with the lowest unemployment rate experienced in the SCAG region in the past 20 years). This is consistent with unemployment rate trends in the SCAG region over the past 20 years. Both the TBGP and the Trend/Local Input Projection are consistent with this unemployment rate assumption. However the 3.7% unemployment rate implied by the Local Input Projection is much lower than the historical low of 4.9%. This very low unemployment rate implies labor force shortages and has the potential to impact immigration policies and migration patterns. There are also policy implications for job training/retraining of the elderly in order to ensure that a trained labor force will be available for the jobs that are created in the future. Such an extremely low unemployment rate will result in the need to reconsider current policies that encourage early retirement.

Housing Affordability/Crowding

The housing shortages implied by the Local Input Projection and TBGP will have an adverse impact on housing affordability and will exacerbate crowding problems within the SCAG region.

The Trend Projection and the Trend/Local Input Projection have the lowest population/household ratio (2.85) compared to the TBGP(2.97) or Local Input Projection (2.97). The reduced housing supply for the Local Input Projection within the region could limit housing affordability (as identified in the State of the Region report). This is a major issue in the SCAG region which already has the highest percentage of households with housing costs greater than one-third of household income of any of the largest metropolitan regions in the United States. Housing crowding was a major problem that was identified in the SCAG State of the Region report. Crowding, as measured by the percent of housing with more than one person per room (excluding the kitchen and bathroom) is much higher (20% of all housing) in the SCAG region than either California (15%) or the United States (6%). The trend is toward more crowded housing in the SCAG region while the crowding situation in the United States has improved over the past 10 years.

The Local Input Projection also implies a shortage of low-income housing compared to the Trend Projection. This will result in relatively higher costs, further impacting the availability of affordable housing. For all of the SCAG region counties (except Imperial County) the Trend Projection has a lower household size than either the TBGP or the Local Input Projection. Orange County local input for household size (3.3) is much higher than the Technically Balanced Growth Projection (3.0) and the Trend Projection and Trend/Local Input Projection (2.8). This could either imply a more serious crowding problem in Orange County or the situation could be due to larger dwelling unit size (with more rooms) for each household. This issue requires further analysis. Alternatively, if people choose to move out of Orange County it may exacerbate the job/housing imbalance that currently exists.

Job/Housing Balance

The Trend/Local Input Projection has the most job housing balance among the four technical growth projections.

The job/housing balance analysis is based on an analysis of ratios of workers per household and jobs per household. An index has been created which includes the relationship of jobs and households in relation to the jobs/household ratio under the balanced scenario. This provides a more accurate representation of the actual job/housing balance situation among the four technical growth projections. As a result of this analysis the Trend/Local Input Projection shows the least variation from a balanced situation.

Income

The housing shortfall (particularly in Orange County), especially under the Local Input Projection, will adversely impact median household incomes and income distributions and will have a negative impact on overall economic activity.

A fourth type of policy implication for the four technical growth projections is their effect on median household incomes as well as on economic activity as expressed in terms of Gross Regional Product (GRP). The lack of housing development implied under the Local Input Projection could impact both overall regional median household incomes as well as income distributions within the region. These impacts are most pronounced in Orange County where the housing shortfall under

the Local Input Projection (compared to the Trend Projection) has the potential to significantly increase housing costs within the county. The lack of housing for Orange County workers would force them to seek housing in the Inland Empire or to leave the region entirely. This would result in more income polarization within Orange County. This could also have a dampening effect on regional median household incomes and gross domestic product due to a reduction in the level of regional growth.

Summary and Conclusion

The four technical growth projections will have implications in the following policy areas: unemployment rate/labor force supply, housing affordability/crowding, job/housing balance and income. A number of issues have been raised in this memorandum which necessitate additional analysis and discussion. This process (during Phase I) will result in the selection of a preferred growth projection which will be evaluated (along with the two growth visioning scenarios) to develop the 2004 RTP Preferred Alternative during Phase II.

The initial analysis indicates that the Trend/Local Input Projection may be the most appropriate projection to use for comparative analysis with the two Growth Visioning alternatives (PILUT 1 and 2). At the same time, however, the Local Input Projection will be utilized as a reference point for the formulation of growth redistribution strategies during Phase II of this process. Staff will complete the Phase I analysis over the next 3 weeks and will present a final recommendation to the CEHD at the May meeting.

2004 RTP Technical Growth Projections - 2010

2010 Population (x 1,000)

County	Trend	Local Input	TBGP	Trend/Local Input
Imperial	180	201	201	180
Los Angeles	10,405	10,367	10,367	10,405
Orange	3,235	3,289	3,289	3,235
Riverside	2,012	2,054	2,054	2,012
San Bernardino	2,069	1,985	1,994	2,069
Ventura	859	861	861	859
SCAG Region	18,759	18,756	18,765	18,759

2010 Household (x 1,000)

County	Trend	Local Input	TBGP	Trend/Local Input
Imperial	51	58	57	51
Los Angeles	3,484	3,447	3,447	3,484
Orange	1,081	1,035	1,035	1,081
Riverside	676	691	690	676
San Bernardino	665	624	626	665
Ventura	286	282	282	286
SCAG Region	6,243	6,137	6,136	6,243

2010 Employment (x 1,000)

County	Trend	Local Input	TBGP	Trend/Local Input
Imperial	71	78	78	71
Los Angeles	5,130	5,104	5,104	5,130
Orange	1,916	1,821	1,821	1,916
Riverside	724	739	739	724
San Bernardino	799	783	783	799
Ventura	406	388	388	406
SCAG Region	9,047	8,913	8,913	9,047

2004 RTP Technical Growth Projections – 2030

2030 Population (x 1,000)

County	Trend	Local Input	TBGP	Trend/Local Input
Imperial	252	277	277	252
Los Angeles	11,706	11,606	11,722	11,706
Orange	3,833	3,602	3,644	3,833
Riverside	2,886	2,840	2,920	2,886
San Bernardino	2,705	2,472	2,523	2,705
Ventura	1,029	967	978	1,029
SCAG Region	22,410	21,765	22,066	22,410

2030 Household (x 1,000)

County	Trend	Local Input	TBGP	Trend/Local Input
Imperial	76	89	86	76
Los Angeles	4,129	4,022	4,023	4,129
Orange	1,358	1,093	1,212	1,358
Riverside	1,022	992	992	1,022
San Bernardino	922	801	803	922
Ventura	363	324	324	363
SCAG Region	7,870	7,321	7,440	7,870

2030 Employment (x 1,000)

County	Trend	Local Input	TBGP	Trend/Local Input
Imperial	106	111	111	106
Los Angeles	5,611	5,616	5,616	5,611
Orange	2,311	2,079	2,079	2,311
Riverside	924	997	997	924
San Bernardino	990	1,022	1,022	990
Ventura	493	460	460	493
SCAG Region	10,434	10,285	10,285	10,434